NSTAR Gas Company

Tariff M.D.T.E. 406

PENSION/PBOP ADJUSTMENT MECHANISM

RATE PAM-1

1.01   **Purpose**

The purpose of the Pension/PBOP Adjustment Mechanism is to provide NSTAR Gas Company ("NSTAR Gas" or the "Company") a mechanism to adjust, on an annual basis and subject to the jurisdiction of the Department of Telecommunications and Energy (the "Department"), its rates for customers of distribution service to recover costs associated with pension and post-retirement benefits other than pensions ("PBOPs") and to reconcile pension and PBOP expense amounts included in the Company's distribution rates with the total expense amounts booked by the Company pursuant to SFAS 87 and SFAS 106.

1.02   **Applicability**

This Pension/PBOP Adjustment Mechanism shall be applicable to NSTAR Gas and all firm gas, as measured in therms, delivered by the Company unless otherwise designated.

1.03   **Effective Date of Annual Adjustment Factor**

The date on which the annual Pension/PBOP Adjustment Factor ("PAF") becomes effective shall be the first day of each calendar year, unless otherwise ordered by the Department. The Company shall submit PAF filings as outlined in Section 1.06 of this tariff at least 30 days before the filing is to take effect.

1.04   **Definitions**

The following terms shall be used in this tariff as defined in this section, unless the context requires otherwise.

(1)   "Distribution Company" or "Company" is NSTAR Gas Company.

(2)   "ERISA" is the Employee Information Retirement Income Security Act of 1974, as amended from time to time.

(3)   "Pension Plan" is a Qualified Pension Plan, as defined by ERISA.

(4)   "Post Retirement Plan Other Than Pension Plan" is a Qualified PBOP, as defined by ERISA.

(5)   "Pre-Paid Amount" is the difference between: (1) the actual cash contributions to the Pension Plan and the PBOP Plan and (2) the amounts recognized in accordance with SFAS 87 and SFAS 106.

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1.04   Definitions (continued)

(6)   "Prior Year" is the calendar year previous to the effective date of a proposed PAF.

(7)   "Reconciliation Deferral" is the difference between: (1) the total pension and PBOP expense amounts included in the Company's rates (including both base rates and the PAF); and (2) the total expense amounts booked by the Company in the Prior Year in accordance with the requirements of SFAS 87 and SFAS 106.

1.05   Pension and PBOP Adjustment Factor Formula

$$PAF_x = (ADA + RA_x + cc(URD_x + APPA_x - DTA_x) + PPRA_x)/Ftherm_x$$

PAF =   The annual Pension/PBOP Adjustment Factor.

ADA =   The Average Differential Amount is the difference between: (1) one-third of the sum of: (a) 2001 non-capitalized pension cash contributions to the pension and PBOP trust funds; (b) 2002 non-capitalized pension cash contributions to the pension and PBOP funds; and (c) 2003 non-capitalized cash contributions to the pension and PBOP trust funds; and (2) the pension and PBOP expenses included in currently effective base distribution rates.

RA_x =   The Reconciliation Adjustment for $Year_x$ is one-third of the Unamortized Reconciliation Deferral at the end of the Prior Year.

URD_x =   The Unamortized Reconciliation Deferral is the amount of the Reconciliation Deferral that has not yet been collected in retail rates. At the beginning of $Year_x$ the Unamortized Reconciliation Deferral is the sum of: (1) the Unamortized Reconciliation Deferral at the beginning of the Prior Year; plus (2) the Reconciliation Deferral for Prior Year; minus (3) the Reconciliation Adjustment for the Prior Year.

cc =   The Cost of Capital is the tax-effected weighted-average cost of capital as most recently approved by the Department. Until the Company's next general rate case following the effective date of this tariff, the Cost of Capital shall be the amount applied to the working capital component of the Company's Cost of Gas Adjustment Clause.

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1.05   Pension and PBOP Adjustment Factor Formula (continued)

$APPA_x =$ The Average Pre-Paid Amount, for $Year_x$ is one half of the sum of: (1) the Pre-Paid Amount recorded on the Company's books as of the beginning of the Prior Year; and (2) the Pre-Paid Amount to be recorded on the Company's books as of the end of the Prior Year.

$DTA_x =$ The Deferred Tax Amount is the deferred taxes associated with the Pre-Paid Amount and the URD at the end of the Prior Year.

$PPRA_x =$ The Past Period Reconciliation Amount is the difference between: (1) the amount of PAF revenue that should have been collected by the Company in the year preceding the Prior Year and the Prior Year; and (2) the amount of PAF revenue actually received by the Company in the year preceding the Prior Year and the Prior Year.

$Ftherm_x =$ The Forecasted Therms is the forecasted amount of therms to be distributed to the Company's distribution customers for the upcoming calendar year.

1.06   Information Required to be Filed with the Department

Information pertaining to the Pension Adjustment Mechanism shall be filed with the Department at least thirty (30) days before the date on which a new PAF is to be effective. Additionally, the Company will file with the Department a complete list by (sub)account of all Pension and PBOP Plan accounts claimed as recoverable through the PAF over the relevant calendar year. This information will be submitted with each annual PAF filing, along with complete documentation of the reconciliation-adjustment calculations.

1.07   Customer Notification

The Company will notify customers in simple terms of changes to the PAF, including the nature of the change and the manner in which the PAF is applied to the bill. In the absence of a standard format, the Company will submit this notice for approval at the time of each PAF filing. Upon approval by the Department, the Company must immediately distribute these notices to all of its distribution customers either through direct mail or with its bills.